TEVA PHARMACEUTICAL INDUSTRIES LTD

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2001

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The amounts are stated in U.S. dollars ($) in thousands.

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REPORT OF INDEPENDENT AUDITORS

To the shareholders of

TEVA PHARMACEUTICAL INDUSTRIES LTD

We have audited the consolidated balance sheets of Teva Pharmaceutical Industries Limited (the "Company") and its subsidiaries as of December 31, 2001 and 2000 and the consolidated statements of income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of certain subsidiaries whose assets included in consolidation constitute approximately 9% of total consolidated assets as of December 31, 2000, and whose sales included in consolidation constitute approximately 16% and 15% of total consolidated sales for the years ended December 31, 2000 and 1999, respectively. The financial statements of those subsidiaries were audited by other independent auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those subsidiaries, is based on the reports of the other independent auditors.

We conducted our audits in accordance with auditing standards generally accepted in Israel and in the United States, including those prescribed by the Israeli Auditors (Mode of Performance) Regulations, 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other independent auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audits and the reports of the other independent auditors, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2001 and 2000, and the consolidated results of their operations, changes in shareholders' equity and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Kesselman & Kesselman

Tel-Aviv, Israel
February 14, 2002

Kesselman & Kesselman
Certified Public Accountants (Isr.)

TEVA PHARMACEUTICAL INDUSTRIES LTD

CONSOLIDATED STATEMENTS OF INCOME

(U.S. dollars in thousands, except earnings per ADR)

	Year ended December 31		
	2001	**2000**	**1999**
Sales	$ 2,077,370	$ 1,749,854	$ 1,282,406
Cost of sales	1,230,077	1,057,975	767,627
Gross profit	847,293	691,879	514,779
Research and development expenses:			
Total expenses	168,637	132,256	91,622
L e s s - grants and participations	61,364	27,681	9,780
	107,273	104,575	81,842
Selling, general and administrative expenses	363,564	307,079	233,891
Restructuring expenses	15,664		
Acquisition of research and development in process		35,697	17,700
Operating income	360,792	244,528	181,346
Financial expenses – net	27,565	46,015	30,598
Other income - net	7,130	9,848	11,214
Income before income taxes	340,357	208,361	161,962
Provision for income taxes	63,650	59,568	45,389
	276,707	148,793	116,573
Share in profits (losses) of associated companies	778	374	(550)
Minority interests	727	(750)	756
Net income	$ 278,212	$ 148,417	$ 116,779
Earnings per ADR:			
Basic	$ 2.10	$ 1.15	$ 0.95
Diluted	$ 2.04	$ 1.14	$ 0.95
Weighted average number of ADRs (in thousands):			
Basic	132,258	128,965	122,613
Diluted	140,461	131,839	123,287

The accompanying notes are an integral part of the financial statements.

TEVA PHARMACEUTICAL INDUSTRIES LTD

CONSOLIDATED BALANCE SHEETS

(U.S. dollars in thousands)

	December 31	
	2001	**2000**
Assets		
Current assets:		
Cash and cash equivalents	$ 768,918	$ 420,634
Short-term investments	21,227	3,901
Accounts receivable:		
Trade	651,188	543,664
Other	166,403	137,154
Inventories	570,148	503,493
Total current assets	2,177,884	1,608,846
Investments and other assets	141,915	100,054
Property, plant and equipment, net	554,137	534,140
Intangible assets, net	586,216	612,578
Total assets	$ 3,460,152	$ 2,855,618
Liabilities and shareholders' equity		
Current liabilities:		
Short-term credit (mainly from banks)	$ 206,523	$ 341,522
Accounts payable and accruals	531,598	442,233
Total current liabilities	738,121	783,755
Long-term liabilities:		
Deferred income taxes	39,032	64,866
Employee related obligations	53,282	40,122
Loans and other liabilities	336,876	263,892
Convertible senior debentures	910,000	550,000
Total long-term liabilities	1,339,190	918,880
Commitments and contingencies, see note 8		
Total liabilities	2,077,311	1,702,635
Minority interests	2,164	1,637
Shareholders' equity:		
Ordinary shares of NIS 0.10 par value; December 31, 2001 and 2000: authorized - 498,586,000; issued and outstanding - 128,086,000 and 127,917,000, respectively	31,034	31,030
Additional paid-in capital	480,522	476,192
Deferred compensation	(246)	(679)
Retained earnings	970,425	728,339
Accumulated other comprehensive loss	(58,456)	(52,552)
Cost of Company shares held by subsidiaries - December 31, 2001 and 2000 - 2,257,000 and 2,119,000 ordinary shares, respectively	(42,602)	(30,984)
Total shareholders' equity	1,380,677	1,151,346
Total liabilities and shareholders’ equity	$ 3,460,152	$ 2,855,618

/s/ Meir Heth	/s/ E. Hurvitz
Prof. M. Heth	**E. Hurvitz**
Chairman of the Board	**Chief Executive Officer, President and Director**

The accompanying notes are an integral part of the financial statements.

TEVA PHARMACEUTICAL INDUSTRIES LTD

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(U.S. dollars in thousands)

	Ordinary shares				
	Number of shares (in thousands)	Par value	Additional paid-in capital	Deferred compensation	Retained earnings
Balance at January 1, 1999	124,554	$ 29,428	$ 157,525	$ (2,353)	$ 512,146
Changes during 1999:					
Net income					116,779
Differences from translation of non-dollar currency financial statements of subsidiaries and associated companies					
Total comprehensive income					
Deferred compensation related to employee stock option plans			3	(3)	
Amortization of deferred compensation related to employee stock option plans				948	
Exercise of options by employees	404	7	5,481		
Dividends					(20,018)
Exercise of warrants	69	1	294		
Distribution of stock dividend		1,522	(1,522)		
Cost of acquisition of Company shares, net of proceeds from sale			1,815		
Balance at December 31, 1999	125,027	30,958	163,596	(1,408)	608,907
Changes during 2000:					
Net income					148,417
Differences from translation of non-dollar currency financial statements of subsidiaries and associated companies					
Unrealized holding losses on available-for-sale securities - net					
Total comprehensive income					
Deferred compensation related to employee stock option plans			56	(56)	
Amortization of deferred compensation related to employee stock option plans				785	
Exercise of options by employees	673	16	9,304		
Dividends					(28,985)
Exercise of warrants	139	3	591		
Shares issued in connection with the acquisition of Novopharm (note 2a(1))	2,078	53	73,559		
Special shares that are exchangeable into 6,378, 000 ordinary shares issued in connection with the acquisition of Novopharm (note 2a(1))			226,388		
Cost of acquisition of Company shares, net of proceeds from sale			2,698		
Balance at December 31, 2000	127,917	31,030	476,192	(679)	728,339
Changes during 2001:					
Net income					278,212
Differences from translation of non-dollar currency financial statements of subsidiaries and associated companies					
Unrealized holding gains on available-for-sale securities - net					
Total comprehensive income					
Deferred compensation related to employee stock option plans			282	(282)	
Amortization of deferred compensation related to employee stock option plans				715	
Exercise of options by employees	169	4	3,904		
Dividends					(36,126)
Cost of acquisition of Company shares, net of proceeds from sale			144		
Balance at December 31, 2001	128,086	$ 31,034	$ 480,522	$ (246)	$ 970,425

The accompanying notes are an integral part of the financial statements.

TEVA PHARMACEUTICAL INDUSTRIES LTD

CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in thousands)

	Year ended December 31		
	2001	**2000**	**1999**
Cash flows from operating activities:			
Net income	$ 278,212	$ 148,417	$ 116,779
Adjustments to reconcile net income to net cash provided by operating activities:			
Income and expenses not involving cash flows*(1)	132,133	131,433	90,829
Changes in certain assets and liabilities*(1)	(137,197)	(114,224)	(52,552)
Net cash provided by operating activities*(2)	273,148	165,626	155,056
Cash flows used in investing activities:			
Purchase of property, plant and equipment	(114,790)	(89,416)	(67,072)
Investment grants relating to property, plant and equipment		1,887	518
Acquisition of subsidiaries*(3)		(8,007)	(212,230)
Acquisition of know-how, patents and product rights	(19,276)	(22,519)	(8,499)
Proceeds from sale of property, plant and equipment	5,053	26,263	3,212
Proceeds from sale of investment in associated company			7,395
Loan granted to an associated company			(571)
Acquisition of long-term investments and other assets	(45,030)	(5,718)	(2,678)
Net decrease (increase) in short-term investments	(16,610)	13,203	8,052
Net cash used in investing activities	(190,653)	(84,307)	(271,873)
Cash flows from financing activities:			
Proceeds from exercise of options by employees	5,210	12,071	7,606
Cost of acquisition of Company shares, net of proceeds from sale	(11,618)	(5,375)	(6,489)
Proceeds from exercise of warrants		594	295
Proceeds from issuance of convertible senior debentures, net of issuance costs (2001 - $7.7 million; 2000 - $12.6 million)	352,344	537,408	
Long-term loans and other long-term liabilities received	82,393	136,190	237,764
Discharge of long-term loans and other long-term liabilities	(64,178)	(309,502)	(52,797)
Net decrease in short-term credit	(64,673)	(78,033)	(17,133)
Dividends paid	(32,761)	(27,645)	(17,766)
Net cash provided by financing activities	266,717	265,708	151,480
Translation differences on cash balances of certain subsidiaries	(928)	(3,570)	(4,560)
Net increase in cash and cash equivalents	348,284	343,457	30,103
Balance of cash and cash equivalents at beginning of year	420,634	77,177	47,074
Balance of cash and cash equivalents at end of year	$ 768,918	$ 420,634	$ 77,177

* See details on following page

TEVA PHARMACEUTICAL INDUSTRIES LTD

DETAILS TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS

(U.S. dollars in thousands)

	Year ended December 31		
	2001	**2000**	**1999**
(1) **Adjustments to reconcile net income to net cash provided by operating activities:**			
Income and expenses not involving cash flows:			
Depreciation	$ 71,503	$ 67,964	$ 57,411
Amortization	37,626	27,021	11,013
Deferred income taxes - net	(874)	(3,296)	4,339
Restructuring expenses	14,216		
Acquisition of research and development in process		34,448	17,700
Increase in employee related obligations	8,152	7,060	3,857
Amortization of deferred compensation related to employee stock option plans	715	785	948
Capital gains	(1,339)	(385)	(3,324)
Share in losses (profits) of associated companies	(778)	(374)	550
Minority interests in profits (losses) of subsidiaries - net	(727)	750	(756)
Other items – net	3,639	(2,540)	(909)
	$ 132,133	$ 131,433	$ 90,829
Changes in certain assets and liabilities:			
Increase in accounts receivable	$ (147,485)	$ (115,538)	$ (82,024)
Decrease (increase) in inventories	(73,358)	(56,211)	16,568
Increase in accounts payable and accruals	83,646	57,525	12,904
	$ (137,197)	$ (114,224)	$ (52,552)
(2) **Supplemental disclosure of cash flow information:**			
Interest paid	$ 36,649	$ 47,285	$ 37,373
Income taxes paid (net of refunds in respect of previous years)	$ 75,455	$ 25,451	$ 22,002
(3) **Acquisition of subsidiaries (in 2000 and 1999):**			
Assets and liabilities of the subsidiaries upon acquisition:			
Working capital (excluding cash and cash equivalents)		$ (100,525)	$ 53,014
Long-lived assets other than goodwill		157,679	39,287
Long-term liabilities		(112,596)	(9,485)
Minority interests in subsidiary at date of acquisition		65	
Research and development in process		34,448	17,700
Goodwill arising on acquisition		255,324	111,714
Cost of investment		234,395	212,230
Issuance of special shares exchangeable into ordinary shares of the Company (note 2a)		226,388	
Cash paid - net		$ 8,007	$ 212,230

The accompanying notes are an integral part of the financial statements.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES:

a. General:

Operations

Teva Pharmaceutical Industries Limited (the "Company") is an Israeli corporation which, together with its subsidiaries and associated companies ("Teva" or the "Group"), is engaged in development, production, marketing and distribution of products in two operating segments, Pharmaceuticals and Active Pharmaceutical Ingredients.

Functional currency

The currency of the primary economic environment in which the operations of the Company and its subsidiaries in Israel and in the United States are conducted is the U.S. dollar ("dollar" or "$"), this in view of the overall trend of increasing dollar sales of the Company. Operating expenses (including purchase of materials) incurred in non-Israeli currencies, mainly the dollar, constitute approximately 50% of the total operating expenses of each of those companies. Most purchases of materials are also made in non-Israeli currencies (mainly the dollar). Thus, the functional currency of these companies is the dollar.

The functional currency of the remaining subsidiaries and associated companies, mainly European and Canadian companies, is their local currency. The financial statements of those companies are included in the consolidation based on translation into dollars in accordance with Statement of Financial Accounting Standards ("FAS") 52 of the Financial Accounting Standards Board of the United States ("FASB"): assets and liabilities are translated at year end exchange rates, while operating results items are translated at average exchange rates during the year. Differences resulting from translation are presented under shareholders' equity, in the item "accumulated other comprehensive income (loss)".

Accounting principles

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States.

Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting years. Actual results could differ from those estimates.

b. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. In these financial statements, "subsidiaries" are companies controlled to the extent of over 50%, the financial statements of which are consolidated with those of the Company. Significant intercompany transactions and balances were eliminated in consolidation; profits from intercompany sales, not yet realized outside the Group, have also been eliminated.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

c. Inventories:

These are valued at the lower of cost or market. Cost is determined as follows:

Raw and packaging materials and purchased products - mainly on the "first-in, first-out" basis. Finished products and products in process: raw material and packaging component - mainly on the "first-in, first-out" basis; labor and overhead - on the average basis over the production period.

d. Investee companies:

These investments are included among "investments and other assets". Companies controlled to the extent of 20% or more, which are not subsidiaries ("associated companies") are accounted for by the equity method. Other non marketable investments are carried at cost.

e. Marketable securities:

Held-to-maturity securities consist of debt securities, which are carried at cost and are included under "short-term investments". At December 31, 2001 and 2000, the carrying value of these securities - which approximated their fair value - was $ 20.9 million and $ 3.7 million, respectively.

Other marketable securities consist mainly of equity investments classified as available-for-sale securities, which are carried at market value with unrealized gains and losses, net of taxes, reported as a separate component of "accumulated other comprehensive income (loss)". The fair market value, cost and gross unrealized holding losses of such securities at December 31, 2001 were $ 15.2 million, $ 16.0 million and $ 0.8 million, respectively; December 31, 2000 - $ 7.0 million, $ 8.1 million and $ 1.1 million, respectively.

f. Property, plant and equipment:

Property, plant and equipment are carried at cost, after deduction of the related investment grants ($ 5.2 million and $ 6.1 million at December 31, 2001 and 2000, respectively). Equipment leased under capital leases is classified as the Group's assets and included at the present value of lease payments as determined by the lease agreement.

Interest expenses in respect of loans and credit applied to finance the construction or acquisition of property, plant and equipment, incurred until the assets are ready for their intended use, are charged to cost of such assets. Interest capitalized for each of the years ended December 31, 2001, 2000 and 1999 was less than $ 1 million.

Depreciation is computed using the straight-line method over the estimated useful life of the assets: buildings - mainly 25 years; machinery and equipment - 8-12 years; motor vehicles, computer equipment, furniture and other assets - mainly 7 years.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

g. Intangible assets:

Intangible assets consist primarily of goodwill, marketing and product rights and debt issuance costs. Goodwill, representing the excess of cost of investments in subsidiaries acquired over the fair value of net assets at acquisition, is amortized in equal annual installments, mainly over a period of 30 years. Debt issuance costs are amortized mainly over 3-5 years. Marketing rights, product rights and other intangible assets are amortized using the straight-line method over their estimated period of useful life, as follows: marketing rights - 30 years; product rights - mainly 12 years; other intangible assets - mainly 5-14 years.

h. Impairment in value of long-lived assets:

The Group reviews its property, plant and equipment and identifiable intangible assets for impairment on an exception basis whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable through undiscounted future cash flows. If it is determined that an impairment loss has occurred, then the loss will be recognized in the statements of income, based on expected discounted future cash flows.

i. Deferred income taxes:

Deferred taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Deferred income tax provisions and benefits are based on the changes in the deferred tax asset or tax liability from period to period.

Taxes which would apply in the event of disposal of investments in subsidiaries have not been taken into account in computing deferred taxes, as it is the Company’s intention to hold these investments, not to realize them.

The Company intends to permanently reinvest the amounts of tax exempt income and does not intend to cause dividend distribution from such income (see note 10a). Therefore, no deferred taxes have been provided in respect of such tax-exempt income.

The Group might incur additional taxes if dividends are distributed out of the income of non-Israeli companies in the Group. Such additional tax liability has not been provided for in these financial statements as the Company does not expect these companies to distribute dividends in the foreseeable future.

j. Company shares held by subsidiaries:

Company shares held by subsidiaries are presented as a reduction of shareholders’ equity, at their cost to the subsidiaries, under “cost of Company shares held by subsidiaries”. Gains and losses on sale of these shares, net of related income taxes, are carried to “additional paid-in capital”.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

k. Revenue recognition:

Revenue is recognized when title to products passes to customers. Provisions for rebates, returns and allowances and other price adjustments are estimated and deducted from gross revenues.

l. Research and development expenses:

Research and development expenses are charged to income as incurred. Government and other participations in research and development expenses are recognized as a reduction of research and development expenses as the related costs are incurred, or as the related milestone is met.

m. Advertising expenses:

Advertising expenses are charged to income as incurred. Advertising expenses for the years ended December 31, 2001, 2000 and 1999 were $ 21.4 million, $ 10.1 million and $ 10.9 million, respectively.

n. Concentration of credit risks - allowance for doubtful accounts:

Most of the Group's cash and cash equivalents and short-term investments as of December 31, 2001 and 2000 were deposited with Israeli, U.S. and European banks. The Company is of the opinion that the credit risk in respect of these balances is remote.

Most of the Group's sales are made in North America, Europe and Israel, to a large number of customers. The sales to each of certain two customers constitute approximately 8% of total consolidated sales in the year ended December 31, 2001 (2000 and 1999 - 6% to each of certain three customers).

In general, the exposure to the concentration of credit risks relating to trade receivables is limited, due to the relatively large number of customers and their wide geographic distribution. The Group performs ongoing credit evaluations of its customers for the purpose of determining the appropriate allowance for doubtful accounts and generally does not require collateral. Certain trade receivables are insured under foreign trade risk insurance. An appropriate allowance for doubtful accounts is included in the accounts. The allowance in respect of trade receivables amounts to $ 15.6 million and $ 9.5 million at December 31, 2001 and 2000, respectively, and has been determined for specific debts doubtful of collection.

o. Derivatives:

The Company has adopted FAS 133, “Accounting for Derivative Instruments and Hedging Activities”, as of January 1, 2001. The Company carries out transactions involving foreign exchange derivative financial instruments (mainly forward exchange contracts and written and purchased currency options). The transactions are mainly designated to hedge the cash flows resulting from existing assets and liabilities and transactions expected to be entered into over the next 12 months, in currencies other than the functional currency. However, these contracts do not qualify for hedge accounting under FAS 133.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

All derivatives are recognized on the balance sheet at their fair value. Changes in the fair value of derivative are carried to the statements of income and included in "financial expenses - net".

Prior to the adoption of FAS 133, foreign currency derivatives were treated as hedges in the accounts when: (1) the item the Company had intended to hedge exposed it to risk; (2) the derivative instrument reduced the exposure to risk and was inversely correlated to the item it was designated to hedge; and (3) it was designated as a hedge from the outset.

Gains and losses on derivatives that hedged existing assets or liabilities in currencies other than the functional currency were recognized in income commensurate with the results from those assets or liabilities. The net premium paid or received in respect of currency options were carried to the statements of income under “financial expenses - net” over the option’s terms. Foreign currency derivatives entered into to reduce the Group’s foreign currency exposure with respect to anticipated transactions which did not meet the requirements for applying hedge accounting, were marked to market at each reporting period, with gains and losses recognized currently as “financial expenses - net”.

p. Cash and cash equivalents:

The Group considers all highly liquid investments, which include short-term (up to three months) bank deposits that are not restricted as to withdrawal or use and short-term debentures, the period to maturity of which did not exceed three months at time of investment, to be cash equivalents.

q. Earnings per American Depository Receipt ("ADR"):

Basic earnings per ADR are computed by dividing net income by the weighted average number of ADRs/ordinary shares and ordinary "A" shares (including special shares exchangeable into ordinary shares) outstanding during the year, net of Company shares held by subsidiaries.

Diluted earnings per ADR are computed by dividing net income by the weighted average number of ADRs/ordinary and ordinary shares "A" shares (including special shares) outstanding during the year, net of Company shares held by subsidiaries, taking into account the potential dilution that could occur upon: (1) the conversion of the convertible senior debentures due 2005, using the if-converted method (no account was taken of the potential dilution that could occur upon the conversion of the convertible senior debentures due 2021, since as of December 31, 2001, the conditions necessary for conversion of such debentures have not been satisfied); and (2) the exercise of options granted under employee stock option plans, using the treasury stock method.

r. Comprehensive income:

In addition to net income, other comprehensive income (loss) mainly includes translation gains (losses) of non-dollar currency financial statements of subsidiaries and associated companies.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued):

s. Recently issued accounting pronouncements:

1) FAS 141 and FAS 142

In July 2001, the FASB issued FAS 141, "Business Combinations", and FAS 142, "Goodwill and Other Intangible Assets" which, as applicable to Teva, are effective as from the year 2002.

FAS 141 supersedes Accounting Principles Board Opinion ("APB") 16, "Business Combinations". As applicable to Teva, the most significant changes made by FAS 141 are: (1) requiring that the purchase method of accounting be used for all business combinations initiated after June 30, 2001; and (2) establishing specific criteria for the recognition of intangible assets separately from goodwill. FAS 142 supersedes APB 17, "Intangible Assets". As applicable to Teva, the most significant changes made by FAS 142 are: (1) goodwill and intangible assets with indefinite lives will no longer be amortized; and (2) goodwill and intangible assets deemed to have an indefinite life will be tested for impairment at least annually at the reporting unit level.

The Company is currently in the process of performing the necessary assessments and allocations and has not yet determined the effect on earnings, if any, from potential transition adjustments. Currently, the Group incurs amortization expense related to goodwill and certain identifiable intangible assets of approximately $ 19 million per year and expects that virtually all of such amortization will be discontinued upon adoption of FAS 142.

2) FAS 144

In August 2001, the FASB issued FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which supersedes FAS 121. As applicable to Teva, FAS 144 is effective as from the year 2002. It establishes an accounting model for impairment or disposal of long-lived assets to be disposed of by sale. The Company is currently evaluating the potential effects, if any, which the adoption of this standard may have on its consolidated financial statements.

t. Reclassifications:

Certain comparative figures have been reclassified to conform to the current year presentation.

NOTE 2 - CERTAIN TRANSACTIONS:

a. Acquisitions:

The acquisitions described in this note 2a have all been accounted for by the purchase method. The consideration for each acquisition was attributed to net assets on the basis of the fair value of assets acquired and liabilities assumed. As described in note 1s, effective January 1, 2002, amortization of goodwill and certain identifiable intangible assets will be discontinued.

1) Acquisition of Novopharm Ltd.:

In 2000, Teva acquired the total shareholding and control of Novopharm Ltd. ("Novopharm"), a Canadian-based generic company, as well as a shareholders' loan of approximately $ 74 million granted to Novopharm by the vendor, and other rights of the vendor. In consideration, the vendor was issued 2.1 million ordinary shares of Teva and 6.4 million special shares that are exchangeable into ordinary shares of the Company at his discretion at a one-to-one ratio. The ordinary shares and the special shares - with a total value determined to be $ 300 million - entitled the holders, assuming full conversion, to approximately 6.2% of the Company’s issued and outstanding share capital at the date of issuance. In addition, in 2000, Teva acquired shares in a subsidiary of Novopharm the latter did not already own for a total amount of $ 12 million.

An amount of $ 34.4 million out of the cost of acquisition was attributed to in-process research and development, that was in various stages of development, had not reached technological feasibility and had no alternative use. This amount was expensed upon acquisition, in accordance with generally accepted accounting principles. The amount attributed to in-process research and development was based on an independent opinion obtained by management using the income approach. The income approach reflects the present value of the net operating cash flows generated by such research and development projects, the relative risk associated with such projects and an appropriate discount rate. The excess of cost of acquisition over the fair value of net tangible assets on acquisition date, not attributable to in-process research and development, after adjustments in 2001, amounted to $ 339 million, allocated as $ 265 million to goodwill and $ 74 million to other identifiable intangible assets.

Additional purchase liabilities recorded included $ 10.5 million for severance pay and related costs associated with the shut-down and consolidation of certain acquired facilities expected to be completed in 2002. At December 31, 2001, purchased liabilities of $ 7.0 million in respect of the above were outstanding. Novopharm had terminated the employment of 153 of the 200 employees (mainly - production) whose employment was to be terminated.

NOTE 2 - CERTAIN TRANSACTIONS (continued)**:**

Goodwill is amortized over 30 years, using the straight-line method; other identifiable intangible assets are amortized over 12-30 years, using the straight-line method.

The results of operations of Novopharm have been included in the consolidated financial statements of Teva commencing the second quarter of 2000.

2) *Acquisition of Copley Pharmaceutical Inc.:*

In 1999, the wholly-owned subsidiary Teva Pharmaceuticals USA, Inc. ("Teva USA") acquired full control and ownership of Copley Pharmaceutical, Inc. ("Copley"), a U.S. generic pharmaceutical company, for $ 220 million. The results of operations of Copley have been included in the consolidated financial statements of Teva commencing the fourth quarter of 1999.

An amount of $ 17.7 million out of the cost of acquisition was attributed to the acquisition of in-process research and development, that was in various stages of development, had not reached technological feasibility and had no alternative use. This amount was expensed upon acquisition, in accordance with generally accepted accounting principles. The amount attributed to in-process research and development was based on an independent opinion obtained by management, using the income approach (see (1) above). The excess of cost of acquisition over the fair value of net tangible assets on acquisition date, not attributed to in-process research and development - $ 117 million - is presented as goodwill and is being amortized over 30 years using the straight-line method.

3) *Certain pro forma data:*

Hereafter are certain unaudited pro forma combined statements of income data for the years ended December 31, 2000 and 1999, as if the acquisition of Novopharm and Copley occurred on January 1, 1999, after giving effect to purchase accounting adjustments, including amortization of goodwill and other identifiable intangible assets, the elimination of intercompany transactions and profits not yet realized outside the Group, the effect of additional financing obtained to complete the Copley acquisition, but excluding non-recurring charges directly attributable to the acquisitions (acquired in-process research and development, in the amount of $ 34.4 million and $ 17.7 million in 2000 and 1999, respectively).

NOTE 2 - CERTAIN TRANSACTIONS (continued):

The pro forma financial information is not necessarily indicative of the combined results that would have been attained had the acquisitions taken place at the beginning of 1999, nor is it necessarily indicative of future results.

	Year ended December 31	
	2000	1999
	U.S. $ in thousands (except earning per ADR)	
	(Unaudited)	
Sales	$ 1,830,696	$ 1,724,909
Net income	$ 172,559	$ 99,897
Earnings per ADR:		
Basic	$ 1.32	$ 0.76
Diluted	$ 1.30	$ 0.76

b. Cooperation agreements:

1) With Impax:

In June 2001, a subsidiary entered into an agreement with Impax Laboratories, Inc. ("Impax") under which Teva was granted exclusive U.S. Marketing rights and an option to acquire exclusive marketing rights for certain Impax products in the rest of North America, South America, the European Union and Israel. Under the agreement, Teva granted Impax a $22 million loan bearing 8% annual interest, and payable - principal and accrued interest - in 2004 in cash or in Impax stock, unless previously forgiven. Pursuant to the agreement, portions of the loan (up to 100% of the principal and accrued interest) are to be forgiven upon the achievement by Impax of certain milestones. If not forgiven, Teva may elect to have repayment of the loan made in part in terms of a non-exclusive right to market certain products.

In addition, Teva is to invest $ 15 million in Impax common stock, of which $7.5 million had already been invested through December 31, 2001. This investment is treated as an "available-for-sale" investment and included, together with the loan mentioned above, under "investments and other assets".

NOTE 2 - CERTAIN TRANSACTIONS (continued):

2) *With Aventis:*

a) Under agreements entered into by Teva and Aventis Pharmaceuticals, Inc. ("Aventis"), sale and distribution of Copaxone®, an innovative product of the Company for the treatment of multiple scelerosis, in North America is being carried out by Aventis. As from January 1, 2001, marketing of Copaxone® in the U.S. and Canada is done by wholly-owned entities of the Company, operating under the name “Teva Neuroscience”.

Aventis is also to participate in certain research and development expenses of Teva relating to the development of the oral version of Copaxone® and to a new indication for injectible Copaxone® (collectively referred to as the "Studies"). Such participation will not exceed maximum amounts stipulated in the agreement. Upon receipt of approval from the U.S. Food and Drug Administration relating to either one of the Studies, the related amount of participation is to be refunded to Aventis.

b) Under separate agreements between the Company and the German parent company of Aventis, Aventis distributes and sells Copaxone® in Europe and certain other countries. In the core European countries, Copaxone® is to be jointly marketed by Teva and Aventis.

In addition, under certain conditions, Teva has reserved the right to reacquire the marketing and distribution rights in Europe to the injectible formulation of Copaxone® for consideration to be computed based on a certain formula, as stipulated in the agreement.

In 2001, a final amount of $ 10 million (2000 - $ 5 million) became due and was paid by Aventis. Such amount, less the portion due to the relevant research institute, was deducted from research and development expenses under "grants and participations".

3) *With Lundbeck:*

a) In 1999, the Company entered into a cooperation agreement with a Danish company, H. Lundbeck A/S ("Lundbeck"), for the joint global development and for the marketing, mainly in Europe, of two innovative products of the Company for the treatment of Parkinson’s disease. The exclusive marketing rights for the rest of the world will remain in the hands of the Company.

Under the agreement, commencing in 1999, Lundbeck participates in the research and development expenses of Teva at varying rates, subject to maximum amounts stipulated in the agreement.

NOTE 2 - CERTAIN TRANSACTIONS (continued):

b) Teva and Lundbeck have entered into an additional cooperation agreement, for the global development and for the marketing, mainly in Europe, of the oral version of Copaxone®. Under the agreement, Lundbeck is to fund the research and development of the product performed by Teva, up to a maximum amount stipulated in the agreement. Other provisions of the agreement relate to the additional funding by Lundbeck of certain other development, pre-marketing and marketing activities relating to the product. Such additional funding is to be made under certain conditions and up to a maximum amount, as stipulated in the agreement.

4) With BTG:

Pursuant to an agreement entered into in 1999, between Teva and Bio Technology General Corp. ("BTG") Teva is to make payments of up to $ 20 million to BTG relating to certain biotech products. Through December 31, 2001 an amount of $ 12.5 million was paid, of which $ 10 million relates to certain marketing and distribution rights which are to become effective no later than 2003 and is included among "intangible assets". The remaining amount of $ 2.5 million represents participation in research and development expenses of BTG relating to certain products under research and development and was charged in the year ended December 31, 2000, to research and development expenses. The balance is to be paid on fulfillment of certain conditions, as per the agreement.

5) With other parties:

In 2001, Teva entered into agreements with two other companies pursuant to which it is to participate in the funding of research and development conducted by these companies in a total amount of $ 20 million, payable upon achievement of certain milestones. In consideration, Teva would be granted certain exclusive worldwide rights with respect to the products to be developed. In addition, Teva acquired shares in these companies for a total amount of approximately $ 10 million which are carried at cost and included under “investments and other assets”.

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment, net, consisted of the following:

	December 31	
	2001	2000
	U.S. $ in thousands	
Land (including leasehold land)	$ 50,338	$ 42,686
Buildings	272,519	251,767
Machinery and equipment	547,884	523,374
Motor vehicles, computer equipment, furniture and other assets	151,492	140,305
Payments on account	12,069	10,368
	1,034,302	968,500
L e s s - accumulated depreciation	(480,165)	(434,360)
	$ 554,137	$ 534,140

Depreciation expense was $ 71.5 million, $ 68.0 million and $ 57.4 million in the years ended December 31, 2001, 2000 and 1999, respectively. The amount for the year ended December 31, 2001 does not include an impairment charge of $ 9.7 million made in connection with the Group's restructuring plans.

Rights to leasehold land extend over original periods of 49 years ending in the years 2007-2043, with an option for an additional period of 49 years.

NOTE 4 - INTANGIBLE ASSETS:

Intangible assets, net, consisted of the following:

	December 31	
	2001	2000
	U.S. $ in thousands	
Goodwill in subsidiaries	$ 522,856	$ 530,004
Marketing rights, product rights, workforce, debt issuance costs and other assets	135,162	133,999
	658,018	664,003
L e s s - accumulated amortization	(71,802)	(51,425)
	$ 586,216	$ 612,578

Amortization expense was $37.6 million, $ 27.0 million and $ 11.0 million in the years ended December 31, 2001, 2000 and 1999, respectively.

NOTE 5 - EMPLOYEE RELATED OBLIGATIONS:

a. Employee related obligations consisted of the following:

	December 31	
	2001	**2000**
	U.S. $ in thousands	
Accrued severance pay	$ 42,858	$ 29,655
Obligation in respect of defined benefit plans	10,424	10,467
	$ 53,282	$ 40,122

As of December 31, 2001 and 2000, the Group had $ 33.2 million and $ 26.9 million, respectively, deposited in funds managed by major Israeli banks and Israeli insurance companies which are earmarked by management to cover severance pay liability in respect of Israeli employees. Such deposits are not considered to be "plan assets" and are therefore included in “investments and other assets”.

Costs of severance pay and defined contribution plans charged to income in the years ended December 31, 2001, 2000 and 1999 was $ 16.9 million (excluding $ 2.3 million in respect of restructuring), $ 15.9 million and $ 10.6 million, respectively. Pension costs under the defined benefit plans in those years amounted to $ 2.8 million, $ 2.7 million and $ 4.1 million, respectively (see c. below).

The main terms of the different arrangements with employees are described in b. below. Further details relating to defined benefit plans, required by FAS 132, "Employees Disclosures About Pensions and Other Post Retirement Benefits", are presented in c. below.

b. Terms of arrangements:

1) In Israel

Israeli law generally requires payment of severance pay upon dismissal of an employee or upon termination of employment in certain other circumstances. The following principal plans relate to the Group's employees in Israel:

a) Pension plans for the majority of the Group's employees: under collective labor agreements, these external pension plans provide 72% of the severance pay liability. The pension and severance pay liabilities covered by these plans are not reflected in the financial statements as the pension and severance pay risks have been irrevocably transferred to the pension funds.

b) Insurance policies for employees in managerial positions: the policies provide coverage for severance pay and pension liabilities of managerial personnel.

NOTE 5 - EMPLOYEE RELATED OBLIGATIONS (continued):

c) Severance pay liabilities not covered above are fully provided for in the financial statements on an undiscounted basis, based upon the number of years of service and the latest monthly salary of the Group's employees in Israel.

2) Non-Israeli subsidiaries

The majority of the employees in the European subsidiaries are entitled to pension according to a defined benefits scheme providing benefits based on final pensionable pay or according to a hybrid pension scheme that provides retirement benefits on a defined benefit and a defined contribution basis. Professionally qualified independent actuaries value these schemes, the rates of contribution payable are being determined by the actuaries. Pension costs for the defined benefit section of the scheme are accounted for on the basis of charging the expected cost of providing pensions over the period during which the subsidiaries benefit from the employees' services.

Other employees in Europe are entitled to a retirement grant when they leave the subsidiaries. In the consolidated financial statements, an accrual of the Company's liability is made, based on the length of service and remuneration of each employee at the balance sheet date.

The North American subsidiaries provide various defined contribution plans for the benefit of their employees. Under these plans, contributions are based on specified percentages of pay. Additionally, a multi-employer plan is maintained in accordance with various union agreements.

c. Certain details relating to defined benefit plans:

The consolidated components of net periodic benefit costs are as follows:

	Year ended December 31		
	2001	**2000**	**1999**
	U.S. $ in thousands		
Service cost	$ 2,521	$ 2,399	$ 3,553
Interest cost	2,284	2,294	2,207
Expected return on plan assets	(1,985)	(1,928)	(1,793)
Recognized net actuarial gain (loss)	(46)	(33)	154
Employers' pension cost	$ 2,774	$ 2,732	$ 4,121

NOTE 5 - EMPLOYEE RELATED OBLIGATIONS (continued)**:**

The consolidated components of the projected benefit obligation and plan assets are as follows:

	December 31	
	2001	**2000**
	U.S. $ in thousands	
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$ 37,816	$ 38,841
Service cost	2,521	2,399
Interest cost	2,284	2,294
Plan participants' contribution	683	637
Benefits paid	(738)	(664)
Actuarial gain	(1,401)	(3,943)
Acquisition		1,201
Exchange rate differences	(1,056)	(2,949)
Benefit obligation at end of year	40,109	37,816
Change in plan assets:		
Fair value of plan assets at beginning of year	30,532	30,127
Actual return on plan assets	(2,193)	516
Employer contribution	2,145	2,053
Plan participants' contribution	683	637
Benefits paid	(668)	(605)
Exchange rate differences	(1,159)	(2,196)
Fair value of plan assets at end of year	29,340	30,532
Reconciliation of funded status:		
Funded status	10,769	7,284
Unrecognized net actuarial gain (loss)	(345)	3,183
Accrued benefit cost	$ 10,424	$ 10,467

	December 31	
	2001	**2000**
Weighted average assumptions:		
Discount rate	6.3%	6.4%
Expected return on plan assets	6.5%	6.4%
Rate of compensation increase	3.4%	3.8%
Pension increase	1.9%	1.1%

NOTE 6 - LONG-TERM LOANS AND OTHER LONG-TERM LIABILITIES:

a. Long-term loans and other long-term liabilities consisted of the following:

	Interest rate as of December 31, 2001	December 31 2001	December 31 2000
	%	U.S. $ in thousands	
Loans from banks:			
In dollars			$ 4,603
In other non-Israeli currencies[(1) (4)]	2.7 - 3.9	$ 213,867	190,339
Missouri Economic Development Bond [(2)]	6.7	13,664	16,000
Debentures - in dollars[(3)(4)]	6.9	110,000	110,000
Other		3,058	1,089
		340,589	322,031
Less - current portion		(3,713)	(58,139)
		$ 336,876	$ 263,892

[(1)] The balance as of December 31, 2001 is composed mainly of: (1) a loan in the amount of $ 132 million due 2005 and bearing interest determined on the basis of the Euro LIBOR; and (2) a loan in the amount of $ 77 million due 2006 and bearing interest determined on the basis of the Canadian dollar LIBOR.

[(2)] Bearing interest at a variable or fixed rate determined according to a certain formula, maturing serially through September 2004. The Bond is secured by a letter of credit which provides for a mortgage on the Mexico, Missouri facility.

[(3)] The balance as of December 31, 2001 and 2000 is composed of debentures, which were issued in 1998 in a private placement to institutional investors in the United States for periods of 7, 10 and 20 years (of which $ 75 million is for a period of 10 years) at a fixed annual interest rate, the weighted average of which is 6.9%.

[(4)] Certain loan agreements and debentures contain restrictive covenants, mainly the requirement to maintain certain financial ratios.

b. As of December 31, 2001, the required annual principal payments of long-term debt, starting from the year 2003, are as follows: 2003 - $ 4.1 million; 2004 - $ 10.0 million; 2005 - $ 152.8 million; 2006 - $ 77.0 million; 2007 and thereafter - $ 93.0 million. The above does not include $ 550 million and $ 360 million of convertible senior debentures due 2005 and 2021, respectively, as described in note 7.

c. The Company and certain subsidiaries entered into negative pledge agreements with certain banks and institutional investors. Under the agreements, the Company and the said subsidiaries have undertaken not to register floating charges on assets in favor of any third parties without the prior consent of the banks, to maintain certain financial ratios and to fulfill other restrictions, as stipulated by the agreements.

NOTE 7 - CONVERTIBLE SENIOR DEBENTURES:

a. In October 2000, Teva Pharmaceutical Finance, LLC ("Teva Finance LLC"), an indirect wholly-owned subsidiary of the Company, sold an aggregate principal amount of $ 550 million of its 1.50% Convertible Senior Debentures due 2005. Interest is payable on a semi-annual basis. Payment of all principal, interest, premium and additional amounts (as defined), if any, payable on the debenture is unconditionally guaranteed by the Company.

Unless previously redeemed or repurchased, holders of the debentures may convert them into ADRs, each of which represents one ordinary share of the Company, at a conversion price of $ 86.2314 per ADR, (upon a full conversion 6,378,165 ordinary shares are issuable), subject to adjustments in certain circumstances. On or after October 15, 2003, Teva Finance LLC may redeem some or all of the debentures at the redemption prices set forth in the offering memorandum. On October 15, 2003 or upon a change of control or termination of trading of Teva ADRs each holder may require Teva Finance LLC to repurchase some or all of the holders' debentures at a redemption price set forth in the offering memorandum. If such requirement is made, Teva Finance LLC can elect to pay the repurchase price in cash or in Teva ADRs (the number of Teva ADRs to be computed as set forth in the offering memorandum), or any combination thereof.

b. In August 2001, Teva Pharmaceutical Finance N.V. ("Teva Finance N.V."), an indirect wholly-owned subsidiary of the Company, sold an aggregate principal amount of $ 360 million of its 0.75% Convertible Senior Debentures due 2021. Interest is payable on a semi-annual basis. Payment of all principal, interest, premium and additional amounts (as defined), if any, payable on the debenture is unconditionally guaranteed by the Company.

Unless previously redeemed or repurchased, holders of the debentures may convert them into ADRs, each of which represents one ordinary share of the Company, under certain circumstances set forth in the offering memorandum, at a conversion price of $ 85.824 per ADR, (upon a full conversion 4,194,631 ordinary shares are issuable), subject to adjustments in certain circumstances. On or after August 20, 2004 , Teva Finance N.V. may redeem some or all of the debentures at the principal amount of such debentures, plus accrued and unpaid interest. On certain dates set forth in the offering memorandum, each holder may require Teva Finance N.V. to repurchase some or all of the holders' debentures at the principal amount of such debentures plus accrued and unpaid interest. With respect to the earliest of such dates - August 20, 2004 - or upon a change in control or a termination of trading of Teva ADRs, if repurchase of debentures is requested Teva Finance N.V. can elect to pay the repurchase price in cash or in Teva ADRs (the number of Teva ADRs to be computed as set forth in the offering memorandum), or any combination thereof.

c. The Group incurred debt issuance costs of approximately $ 20 million in respect of the two series of debentures. These costs are deferred and amortized as a component of interest expense.

NOTE 8 - COMMITMENTS AND CONTINGENCIES:

a. Commitments:

1) *Operating leases:*

As of December 31, 2001, minimum future rentals under operating leases of buildings, machinery and equipment for periods in excess of one year were as follows: 2002 - $ 13.3 million; 2003 - $ 11.6 million; 2004 - $ 10.0 million; 2005 - $ 7.8 million; 2006 - $ 5.9 million; 2007 and thereafter - $ 14.3 million.

The lease fees for each of the years ended December 31, 2001, 2000 and 1999 were $ 13.4 million, $ 10.9 million and $ 7.4 million, respectively, of which $ 2.8 million and $ 2.1 million to a related party in the years ended December 31, 2001 and 2000, respectively.

2) *Royalty commitments:*

a) The Company is committed to pay royalties to owners of know-how and to parties that financed research and development, at rates ranging mainly from 0.5% to 10% of sales of certain products, as defined in the agreements. In some cases, the royalty period is not defined; in other cases, the royalties will be paid for a period of up to 16 years, commencing on the date of the first royalty payment.

b) The Company has also undertaken to pay royalties to the Government of Israel, at the rates of 2.0% - 3.5% of sales relating to a product or a development resulting from the research funded by the Office of the Chief Scientist. The royalties due to the Government should not exceed the amount of participation, in dollar terms (in respect of research grants commencing 1999 - with the addition of dollar LIBOR interest). The maximum amount of the contingent liability in respect of royalties to the Government at December 31, 2001 amounts to $ 33.7 million.

c) The royalty expense for the years ended December 31, 2001, 2000, and 1999 was $ 55.2 million, $ 35.1 million, and $ 16.1 million, respectively.

b. Contingent liabilities:

1) In July 1997, the Company received an Israeli value added tax assessment requiring the Company to pay an amount of $ 4.9 million in respect of sales to certain health funds. The Company contested this assessment and the value added tax authorities rejected the Company’s arguments. The Company appealed this assessment in Court. Based on the opinion of its legal counsel, management is of the opinion that the Company has a reasonable chance to prevail, due to the merits of its case and in light of the fact that it had received a pre-ruling on the disputed sales. Accordingly, no provision for this matter has been included in the accounts.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (continued):

2) In 1995, Copley and its insurers have reached a compromise agreement in respect of a class action, which was lodged against Copley in the United States, in respect of damages caused as a result of use of the product known as "Albuterol". Under that agreement, the amount payable to the claimants to settle the claim will be no less than $ 65 million and no more than $ 150 million. Pursuant to the terms of the settlement, amounts were set aside in funds for various classes of affected plaintiffs by Copley and its insurance carriers. All but approximately seven claims have been discharged and released under the terms of the class action settlement. Teva believes that it has adequate insurance to cover these claims and that the outcome of the remaining litigation in which Copley is involved, including opt-outs from the class, will not have a material adverse effect on Teva's financial position.

3) In 2000, Teva USA, along with Elan Corporation, Elan Pharma Ltd. (collectively "Elan") and Biovail Corporation International ("Biovail"), are defendants in a patent litigation brought by Bayer AG and Bayer Corporation (collectively "Bayer"). Bayer alleges that a certain Elan product, which Teva USA markets, infringes a Bayer patent. Bayer is seeking enhanced damages and attorneys' fees in unspecified amounts, preliminary and permanent injunctions, and a recall of the Elan product. The court granted a motion for summary judgment in favor of the defendants and dismissed the case. Bayer has appealed the judgment. The Court of Appeals for the Federal Circuit vacated the judgment of non-infringement and remanded to the district court for further proceedings. The Company and its legal counsel believe that this matter will not have a material adverse effect on the results of Teva's operations and its financial position. No provision for this matter has been included in the accounts.

4) Teva USA, along with Biovail, are defendants in two patent litigations brought by Bayer AG, Bayer Corporation (and in one of the case, also Pfizer Inc.) in February 2001 in the District Court of Puerto Rico. The plaintiffs allege that certain Biovail's extended release products, which are marketed by Teva USA, also infringe the above-mentioned Bayer patent. The plaintiffs are seeking enhanced damages and attorneys' fees in unspecified amounts, preliminary and permanent injunctions, and a recall of such products. The court has stayed this litigation pending resolution of the Bayer's appeal referred to above. No provision for these matters has been included in the accounts.

5) Teva USA is a party to numerous claims, including class actions in unspecified amounts, alleging negative health effects due to the use, in the course of a weight control plan known as "Fen-Phen", of one of the subsidiary's products in conjunction with two products of other pharmaceutical companies. The Company is vigorously defending itself against these claims, inter alia, with the assistance of experts. The Company and its legal counsel believe that this matter will not have a material adverse effect on the results of Teva's operations and its financial position. No provision for this matter has been included in the accounts.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (continued):

6) The Hungarian subsidiary - Biogal Pharmaceutical Works Ltd. ("Biogal") - has been sued for additional royalties arising out of a series of contracts for the development of a pharmaceutical active ingredient. Although the plaintiff has not made any claims for a specific amount, in an interim decision, the court ordered Biogal to submit an accounting on the contested items. Biogal has appealed the decision and based upon the advice of its legal counsel, expects to prevail. No provision for this matter has been included in the accounts.

7) Subsequent to December 31, 2001, a claim was filed against an Israeli subsidiary of the Company, a senior officer and a former senior officer of the Israeli subsidiary in the amount of $ 17 million. The claim relates to an agreement entered into in 1998 between the plaintiff and the Israeli subsidiary, under which the Israeli subsidiary sold off the assets (excluding land) of its plant to the plaintiff. The plaintiff is claiming to have been deceived and consequently lost the entire investment in the acquired plant. A statement of defense has yet to be filed. The Company, the Israeli subsidiary and the senior officer reject the said claim and all the arguments raised therein.
Management, based on the advice of its legal counsel, is of the opinion that the chances of prevailing in the claim are good and accordingly, no provision for this matter has been included in the accounts.

8) In August 2000, a claim was filed in the Tel-Aviv District Court, and is now pending against the Company, with respect to damages caused as a result of the use of a product containing the ingredient Diethylstilbestrol ("DES").
In May and November 2001, 69 plaintiffs filed an additional claim against the Company, in the District Court of Jerusalem, in respect of damages caused by the use of two products containing DES. The amount of the two claims aggregates approximately $ 10 million, not including general damages. The Company is vigorously defending itself against these claims, inter alia, with the assistance of experts.
Because the above claims are still in their early stages, no determination can be made of the likelihood of prevailing in the actions, but the Company and its legal counsel believe that the Company has good defense arguments. No provision for this matter has been included in the accounts

9) In April 2001, a claim was filed against the Company with respect to the use of the product known as "Chorigon". The plaintiffs claimed financial damages resulting from an alleged default in the product. The plaintiffs filed a petition to certify the claim as a class action. The aggregate amount of the claims under the class action approximates $ 133 million. In December 2001, the Company filed its response, rejecting the petition to certify the claim as a class action. The claim is still in its early stages. Therefore the Company's legal counsel is unable to express an opinion thereon. Nevertheless, based on data collected thus far, management is of the opinion that no provision is needed in this respect.

NOTE 8 - COMMITMENTS AND CONTINGENCIES (continued):

10) In August 2001, Teva won a judgment in an action pending in the U.S. Federal District Court in Boston, Massachusetts, brought against it by SmithKline Beecham ("SmithKline") regarding the U.S. patent covering nabumetone, the active ingredient in Relafen®. SmithKline has appealed the judgment. While Teva believes that the findings of fact and legal conclusions of the district court are well founded and that the decision will be upheld, were SmithKline to be successful in its appeal, Teva could be required to pay damages to SmithKline related to the sales of Teva's nabumetone product. No provision has been included in the accounts in respect of these proceedings.

11) A subsidiary is a defendant in a litigation arising out of Teva's termination of a distribution agreement between a third party and the subsidiary for the marketing and distribution of the subsidiary's products in a certain territory. The claim is for a maximum amount of $ 13 million. Legal counsel has advised the Company that the likelihood of a loss is not yet determinable as the claim is in its early stages. No provision for this matter has been included in the accounts.

12) Teva may from time to time seek to develop generic products for sale prior to patent expiration in various territories. In the United States, such development is governed by the patent challenge procedures set forth in the Waxman-Hatch Act of 1984. To the extent that it seeks to utilize such patent challenge procedures, Teva is involved and expects to be involved in patent litigation regarding the validity or infringement of the originator's patent. Additionally, Teva may be involved in patent litigation involving the extent to which alternate manufacturing process techniques may infringe on originator or third party process patents.

13) Teva is from time to time subject to claims arising in the ordinary course of its business, including product liability. The Company believes it has meritorious defenses to such claims and legal proceedings pending as of December 31, 2001 and maintains adequate product liability insurance to cover the related damages. In the opinion of the Company, the outcome of the litigation in which Teva is presently involved will not have a material adverse effect on the results of the operations or the financial position of Teva.

NOTE 9- SHAREHOLDERS' EQUITY:

a. Share capital:

The Company’s ordinary shares are traded on the Tel-Aviv Stock Exchange (“TASE”) and, in the form of American Depository Receipts (“ADRs”), each of which represents one ordinary share, on the Nasdaq National Market in the United States.

In addition to ordinary shares held by subsidiaries of the Company, as disclosed on the face of the balance sheet the Company issued the following to certain subsidiaries: (a) 424,200 ordinary “A” shares allotted to a subsidiary, which do not confer on their holder voting rights or rights to appoint directors (other rights are identical to those of the ordinary shares); (b) 989,800 ordinary shares issued in 2000 and 1993 as stock dividend to the subsidiary which holds ordinary “A” shares of the Company; these shares do not confer on their holder voting rights and are not listed for trade; (c) 60 deferred shares held by subsidiaries, which entitle their holder only to receive the par value of such shares upon liquidation of the Company.

In February 2000, the Company distributed a 100% stock dividend to all holders of ordinary shares. All the data relating to the number of shares and options in these financial statements take this stock dividend into account, with retroactive effect.

b. As to special shares issued by a subsidiary that are exchangeable into 6.4 million ordinary shares of the Company, see note 2a(1).

c. Share issuance under compromise agreement for class action:

Under a compromise agreement, in 1999 the Company allowed the plaintiffs in two class actions brought in Israel by holders of the Company’s warrants, which expired on December 31, 1991, to exercise warrants to purchase 208,818 ordinary shares of NIS 0.10 par value at the ratio of one-to-one. In 1999, warrants for 69,436 ordinary shares were exercised at a total exercise price of $ 295,000 and, in 2000, additional warrants for 139,382 ordinary shares were exercised at a total exercise price of $ 594,000. The cumulative market value of the shares issued on the dates of exercise exceeded the total exercise price of $ 889,000 by $ 6,281,000. The Company did not expense any amount in connection with this compromise agreement, as it considered the agreement to effectively be performance of the original warrant agreement.

d. Employee stock option plans:

1) In 1992, the Company's Board of Directors approved an employee stock option plan, under which options are to be granted without consideration to the Company's senior employees in Israel. The options may be exercised to purchase up to 2.5 million ordinary shares of the Company. Any options not exercised before the expiration date will expire, unless extended by the Board of Directors. Through December 31, 2001, options exercisable to purchase 2.2 million ordinary shares were granted under the plan. The balance of the options may be granted from time to time, as determined by the Wages and Compensation Committee of the Board of Directors (the "Committee").

   During the period from 1988 through 2001, certain non-Israeli subsidiaries granted their employees options for the purchase of the Company’s ADRs. Any options not exercised within the applicable exercise period will expire.

NOTE 9- SHAREHOLDERS' EQUITY (continued)**:**

2) On January 6, 1997, September 3, 1998 and September 4, 2001, the Board of Directors resolved to grant the Chief Executive Officer and President of the Company, at no consideration, options exercisable in purchase of 500,000, 100,000 and 75,000 ordinary shares at the exercise price of $ 19.75, $ 18.43 and $ 70.21, respectively. These resolutions were approved by shareholders' meetings.

   Subsequent to December 31, 2001, the Board of Directors resolved to grant the Chief Executive Officer and President of the Company, at no consideration, options exercisable in purchase of 700,000 ordinary shares, at an exercise price to be determined based on the price of the Company's share on the date of the approval by the shareholders' meeting. On the same date, the Board of Directors resolved to grant the new Chief Executive Officer and President elect of the Company, at no consideration, options exercisable in purchase of 300,000 ordinary shares at the exercise price of $ 60.41.

3) In 1999, the Company’s Board of Directors approved an additional option plan for employees of the Group, under which senior employees in Israel, Europe and the United States are to be granted options for up to 2 million ordinary shares of the Company, without consideration. Any option not exercised by the end of the exercise period will expire, unless the exercise period is extended by the Board of Directors. Through December 31, 2001, options exercisable to purchase 1.1 million ordinary shares were granted under this plan. The balance of the options may be granted from time to time, as determined by the Committee.

4) In August 2000, the Company's Board of Directors approved an option plan under which, over five years, employees of the Group will be granted options for up to 6.25 million ordinary shares of the Company, without consideration. Through December 31, 2001, the Board of Directors granted options for up to 2.5 million ordinary shares of which options exercisable to purchase 2.3 million ordinary shares were granted.

5) In July 2001, the Company’s Board of Directors approved an option plan, under which options to purchase 780,000 ordinary shares of the Company were granted to 7,800 employees of the Group (substantially all those who were in the employ of the Group prior to September 1, 2000 were each granted options to purchase 100 ordinary shares) without consideration, at an exercise price of $ 55.53 (85% of the market value of the Company’s ADR on date of grant). Nine hundred other employees were granted options under the same plan, at no consideration, to purchase 90,000 ordinary shares of the Company, at an exercise price of $ 59.20. The Company accounts for this stock option plan as a non-compensatory plan in accordance with the provisions of APB 25.

6) The grant of options to Israeli employees under the plans described above is to be subject to the terms stipulated by the Israeli Income Tax Ordinance. Inter alia, the Ordinance provides that the Company will be allowed to claim as an expense for tax purposes the amounts credited to the employees as a benefit, when the related tax is payable by the employee.

7) The vesting period of the options granted is 2 to 5 years from the date of grant and the rights of the ordinary shares obtained upon exercise of the options will be identical to those of the other ordinary shares of the Company. The exercise period of the options granted is mainly 5 to 8 years from the date of grant.

NOTE 9- SHAREHOLDERS' EQUITY (continued)**:**

8) A summary of the status of the option plans as of December 31, 2001, 2000 and 1999, and changes during the years ended on those dates, is presented below (the number of options represents ordinary shares exercisable in respect thereof):

	Year ended December 31					
	2001		2000		1999	
	Number	Weighted average exercise price	Number	Weighted average exercise price	Number	Weighted average exercise price
		$		$		$
Balance outstanding at beginning of year	4,590,503	33.02	3,229,106	18.63	3,142,220	16.66
Changes during the year:						
Granted	2,350,680	60.77	2,304,350	45.62	682,200	23.18
Exercised	(279,879)	20.85	(901,453)	13.89	(574,184)	13.25
Forfeited	(150,464)	31.19	(41,500)	28.49	(21,130)	19.53
Balance outstanding at end of year	6,510,840	43.60	4,590,503	33.02	3,229,106	18.63
Balance exercisable at end of year	1,056,334	20.86	1,314,413	20.61	1,163,192	16.21

The weighted average fair value of options granted during the year, estimated by using the Black & Scholes option-pricing model, was $ 33.43, $ 23.20 and $ 10.68 for the years ended December 31, 2001, 2000 and 1999, respectively. The fair value of the options was estimated on the date of grant, based on the following weighted average assumptions: dividend yield of: 2001 - 0.5%, 2000 - 0.4 % and 1999 - 0.6%; expected volatility of: 2001 - 36%, 2000 - 37% and 1999 - 29%; risk-free interest rates (in dollar terms) of: 2001 - 5%, 2000 - 6% and 1999 - 5%; and expected lives of: 2001 - 5.2 years, 2000 - 4.5 years and 1999 - 4.2 years.

NOTE 9 - SHAREHOLDERS' EQUITY (continued):

Options are generally granted to employees at prices that are not different from the market price of the Company's ADR at the time of grant. In the years ended December 31, 2001, 2000 and 1999, 1,520,680, 2,304,350 and 682,200 such options were granted with fair values of $ 45.4 million, $ 53.5 million and $ 7.3 million, respectively.

In 2001, 830,000 options were granted at prices below the market price of the Company's ADR at the time of grant. The fair value of such options is $ 33.2 million.

The following table summarizes information about options outstanding at December 31, 2001:

Number of ordinary shares issuable upon exercise of options outstanding				Number of ordinary shares issuable upon exercise of options vested	
Range of exercise prices	**Balance at December 31, 2001**	**Weighted average remaining contractual life**	**Weighted average exercise price**	**Balance at December 31, 2001**	**Weighted average exercise price**
		Years	**$**		**$**
$ 4.50 - $ 6.00	20,000	0.92	4.50	20,000	4.5
$ 10.50 - $ 14.00	24,000	0.01	11.72	24,000	11.72
$ 18.50 - $ 21.50	1,451,310	3.42	19.53	726,334	19.70
$ 22.00 - $ 25.50	1,166,200	5.16	23.95	124,000	23.70
$ 26.00 - $ 29.50	162,000	4.89	27.24	162,000	27.24
$ 48.00 - $ 49.00	155,400	5.38	48.63		
$ 54.00 - $ 58.50	1,279,800	7.94	55.40		
$ 59.00 - $ 63.00	389,230	7.00	61.10		
$ 63.50 - $ 64.00	923,860	4.00	63.58		
$ 65.00 - $ 72.50	939,040	5.08	65.87		
$ 4.50 - $ 72.50	6,510,840	5.22	43.60	1,056,334	20.86

9) Accounting treatment of the employee stock option plans:

The Company accounts for its employee stock option plans using the intrinsic value based method of accounting prescribed by APB 25 and related interpetations. Accordingly, the compensation cost relating to stock options is charged on the date of grant of such option, to shareholders' equity, under "deferred compensation", and is thereafter amortized by the straight-line method and charged against income over the expected service period of the related employees.

FAS 123, "Accounting for Stock-Based Compensation", established a fair value based method of accounting for employee stock options or similar equity instrument, and encourages adoption of such method for stock compensation plans. However, it also allows companies to continue to account for those plans using the accounting treatment prescribed by APB 25. The Company has elected to continue accounting for employee stock option plans according to APB 25, and has accordingly complied with the disclosure requirements set forth in FAS 123 for companies electing to apply APB 25.

NOTE 9 - SHAREHOLDERS' EQUITY (continued):

10) The compensation cost determined under APB 25 and charged against income in the years ended December 31, 2001, 2000 and 1999 was $ 0.7 million, $ 0.8 million and $ 0.9 million, respectively. Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant dates, consistent with the method of FAS 123, the Company's net income and earnings per ADR would have been reduced to the proforma amounts indicated below:

	Year ended December 31					
	2001		2000		1999	
	As reported	Pro forma	As reported	Pro forma	As reported	Pro forma
Net income - in U.S. dollars in Thousands	$ 278,212	$ 250,266	$ 148,417	$ 135,775	$ 116,779	$ 108,617
Earnings per ADR:						
Basic	$ 2.10	$ 1.89	$ 1.15	$ 1.05	$ 0.95	$ 0.89
Diluted	$ 2.04	$ 1.83	$ 1.14	$ 1.03	$ 0.95	$ 0.88

e. Retained earnings:

1) Retained earnings at December 31, 2001 include $ 361.3 million, the distribution of which as cash dividends would entail payment of tax at the rate of 20% (see notes 1i and 10a).

2) Dividends are declared and paid in Israeli currency ("NIS"). Dividends declared per ADR for the years ended December 31, 2001, 2000 and 1999 were $ 0.29, $ 0.23 and $ 0.16, respectively.

NOTE 10 - INCOME TAXES:

a. The Company and its Israeli subsidiaries:

Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (the "law")

Expansion projects of the Company and several of its Israeli subsidiaries have been granted "approved enterprise" status under the law. Since the Company is over 49% foreign-owned, income derived from these enterprises during a period of 10 years from the year in which these enterprises first realize taxable income, provided the maximum period to which it is restricted by the law has not elapsed, is subject to corporate tax at the rate of 20%.

Investment grants were received from the State of Israel by the Company and several of its Israeli subsidiaries under the terms of the law. As security for implementation of the approved projects and compliance with the conditions of the certificates of approval, floating charges have been registered on the above companies' assets in favor of the State of Israel.

NOTE 10 - INCOME TAXES (continued):

Additional expansion projects of the Company and of certain Israeli subsidiaries were granted "approved enterprise" status, for which the companies elected to apply for alternative tax benefits - waiver of grants in return for tax exemption; such tax exemption is for a limited period, having regard to the area in which the enterprises are located. During the remainder of the benefits period (until expiration of 10 years), corporate tax of 20% as above is to apply. The periods of tax benefits in respect of approved enterprises entitled to the said benefits commenced in 1992 - 2001. Final approvals in respect of certain expansion programs have not yet been received. In the event of the distribution of dividends from the said tax-exempt income, the amount distributed will be subject to a 20% tax (see also note 1i).

The law also allows accelerated depreciation on buildings, machinery and equipment used by the "approved enterprise" during five tax years commencing in the first year of operation of each asset.

The entitlement to the above benefits is conditional upon the companies' fulfilling the conditions stipulated by the law, regulations published thereunder and the certificates of approval for the specific investments in approved enterprises. In the event of failure to comply with these conditions, the benefits may be cancelled and the companies may be required to refund the amount of the benefits, in whole or in part, with the addition of linkage differences to the Israeli consumer price index (the "Israeli CPI") and interest.

Measurement of results for tax purposes

Results for tax purposes are measured on a real basis - adjusted for the increase in the Israeli CPI. As explained in note 1a, the financial statements are presented in dollars. The difference between the change in the Israeli CPI and the NIS-dollar exchange rate - both on annual and cumulative bases - causes a difference between taxable income and income reflected in these financial statements.

Paragraph 9 (f) of FAS 109, "Accounting for Income Taxes", prohibits the recognition of deferred tax liabilities or assets that arise from differences between the financial reporting and tax bases of assets and liabilities that are measured from the local currency into dollars using historical exchange rates, and that result from changes in exchange rates or indexing for tax purposes. Consequently, the abovementioned differences were not reflected in the computation of deferred tax assets and liabilities.

Tax benefits under the Israeli Law for the Encouragement of Industry (Taxes), 1969

The Company and certain of its Israeli subsidiaries are "industrial companies" under the above law. In accordance with this law and certain regulations, the companies are entitled to claim depreciation at increased rates and file a consolidated tax return with respect to certain subsidiaries.

Tax rates in Israel applicable to income from other sources

Income not eligible for "approved enterprise" benefits, mentioned above, is taxed at the regular rate of 36%.

NOTE 10 - INCOME TAXES (continued):

b. Non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their country of residence.

c. Deferred income taxes:

	December 31	
	2001	2000
	U.S. $ in thousands	
Short-term deferred tax assets (liabilities) - net:		
Inventory reserve	$ (778)	$ 2,937
Sales allowance reserve	636	15,410
Provisions for employee related obligations	4,527	4,223
Unrealized income from intercompany sales	11,485	8,279
Loss carryforward	2,807	3,008
Other	1,993	1,137
	20,670	34,994
Long-term deferred tax assets (liabilities) - net:		
Property, plant and equipment and intangible assets	(53,442)	(66,751)
Provisions for employee related obligations	1,563	674
Carryforward losses and deductions*	70,455	74,507
Other	(1,975)	1,836
	16,601	10,266
Valuation allowance - in respect of carryforward losses and deductions that may not be utilized	(32,975)	(39,556)
	$ 4,296	$ 5,704

* This amount represents the tax effect of carryforward losses and deductions and expires as follows: 2003-2005 - $ 10.2 million; 2006-2011- $ 19.3 million. The remaining balance - $ 41.0 million can be utilized with no expiration date.

The deferred income taxes are reflected in the balance sheets among:

	December 31	
	2001	2000
	U.S. $ in thousands	
Current assets	$ 27,357	$ 43,896
Current liabilities	(6,687)	(8,902)
Long-term assets	22,658	35,576
Long-term liabilities	(39,032)	(64,866)
	$ 4,296	$ 5,704

d. Income before income taxes is composed of the following:

	Year ended December 31		
	2001	2000	1999
	U.S. $ in thousands		
The Company and its Israeli subsidiaries	$ 134,826	$ 82,178	$ 84,411
Non-Israeli subsidiaries	205,531	126,183	77,551
	$ 340,357	$ 208,361	$ 161,962

NOTE 10 - INCOME TAXES (continued):

e. The provision for income taxes included the following components:

	Year ended December 31		
	2001	**2000**	**1999**
	U.S. $ in thousands		
Current:			
In Israel	$ 37,845	$ 18,316	$ 16,435
Outside Israel	26,679	44,548	24,615
	64,524	62,864	41,050
Deferred:			
In Israel	(1,855)	1,490	714
Outside Israel	981	(4,786)	3,625
	(874)	(3,296)	4,339
	$ 63,650	$ 59,568	$ 45,389

A reconciliation of the theoretical tax expense, assuming all income is taxed at the regular rates applicable to income of companies in Israel (36%) and the actual tax expense, is as follows:

	Year ended December 31		
	2001	**2000**	**1999**
	U.S. $ in thousands		
Income before taxes on income, per consolidated statements of income	$ 340,357	$ 208,361	$ 161,962
Theoretical tax expense	$ 122,528	$ 75,010	$ 58,306
Tax benefit arising from reduced tax rate for "approved enterprises"	(45,272)	(12,319)	(10,509)
	77,256	62,691	47,797
Decrease in tax arising from different tax rates applicable to non-Israeli subsidiaries	(34,734)	(23,491)	(14,718)
Increase (decrease) in taxes resulting from permanent differences:			
Tax exempt income	(3,449)	(1,202)	(897)
Disallowable deductions (2000 and 1999 - mainly in respect of acquisition of research and development in process)	13,496	17,801	10,899
Difference between income reported for tax purposes and income for financial reporting purposes - net	(1,703)	2,350	2,164
Other - net	12,784	1,419	144
Provision for income taxes in the consolidated statements of income	$ 63,650	$ 59,568	$ 45,389

NOTE 10 - INCOME TAXES (continued):

f. Tax assessments:

The Company has received final tax assessments through tax year 1997. The subsidiaries have received final tax assessments through tax years 1991-2000.

NOTE 11 - ADDITIONAL FINANCIAL STATEMENT INFORMATION:

a. Inventories:

	December 31	
	2001	2000
	U.S. $ in thousands	
Raw and packaging materials	$ 137,632	$ 115,723
Products in process	117,367	85,269
Finished products	272,840	255,563
Purchased products	32,461	35,683
	560,300	492,238
Materials in transit and payments on account	9,848	11,255
	$ 570,148	$ 503,493

b. Short-term credit (mainly from banks):

Short-term credit includes current portion of long-term loans and other long-term liabilities. Other short-term credit as of December 31, 2001 amounts to $ 202.8 million and bears interest at a weighted average rate of 4.8 %.

As of December 31, 2001, the Group had approximately $ 440.0 million available under unused lines of credit.

c. Accounts payable and accruals:

	December 31	
	2001	2000
	U.S. $ in thousands	
Trade accounts payable	$ 189,106	$ 161,844
Sales reserves and allowances	137,210	63,635
Employees and employee related obligations	50,590	50,586
Other	154,692	166,168
	$ 531,598	$ 442,233

NOTE 11 - ADDITIONAL FINANCIAL STATEMENT INFORMATION (continued):

d. Financial instruments and risks management:

1) Foreign exchange risk management

The Group enters into forward exchange contracts in foreign currencies and purchases and writes foreign currency options in order to hedge cash flows (mainly in dollars) resulting from existing assets and liabilities as well as anticipated transactions for the current year which are probable, in currencies other than the functional currency. In addition, the Group takes steps to reduce exposure by using "natural" hedging. The Company also acts to offset risks in opposite directions among the companies in the Group. The currency hedged items are usually denominated in the following currencies: European (mainly - the Euro), Israeli (NIS) and Canadian (CAD $). The writing of options is part of a comprehensive currency hedging strategy. These transactions do not qualify for hedge accounting under FAS 133.

The notional amounts of foreign currency derivatives as of December 31, 2001 are as follows: currency options purchased for conversion of Euro into dollars - $ 18 million (December 31, 2000 - $ 19 million); currency options purchased for conversion of NIS into dollars - $ 25 million (December 31, 2000 - $ 40 million); currency options purchased for conversion of CAD $ into dollars - $6 million (December 31, 2000 - $ 6 million); currency options written: for conversion of Euro into dollars - $ 18 million (December 31, 2000 - $ 19 million), for conversion of NIS into dollars - $ 25 million (December 31, 2000 - $ 40 million), and for conversion of CAD $ into dollars - $ 6 million (December 31, 2000 - $ 6 million); forward exchange contracts: for conversion of dollars into Hungarian Forints (HUF) - $ 49 million, for conversion of Great Britain Pounds into HUF - $ 6 million; for conversion of EURO into HUF - $ 22 million (December 31, 2000 - for conversion of NIS into dollars - $ 11 million).

These transactions are for periods of less than one year. As the counter parties to the derivatives are banks, the Company considers the inherent credit risks to be remote.

2) Fair value of financial instruments:

The financial instruments of the Group consist mainly of cash and cash equivalents, short-term investments, current and non-current receivables, short-term credit, accounts payable and accruals, long-term loans and other long-term liabilities, convertible senior debentures and derivatives.

The fair value of the financial instruments included in working capital and non-current receivables of the Group is usually identical or close to their carrying value. The fair value of long-term bank loans also approximates the carrying value, since they bear interest at rates close to the prevailing market rates. The fair value of the convertible senior debentures and long-term debentures, based on quoted market values and prevailing market rates, approximates the carrying value.

The fair value of derivatives at December 31, 2001, is an asset of $ 1.3 million; December 31, 2000 - a liability of $ 1.5 million. The fair value of derivatives generally reflects the estimated amounts that Teva would receive or pay to terminate the contracts at the reporting dates.

NOTE 11 - ADDITIONAL FINANCIAL STATEMENT INFORMATION (continued):

e. Information on operating segments:

Operating segments:

1) General:

The Group's reportable segments are strategic businesses differentiated by the nature of their products and customers. The segments are managed separately due to the differences in production technologies and marketing methods and can be described as follows:

Pharmaceutical segment -	development, production, marketing and distribution of medicines in various dosages and forms, in most areas of medicinal treatment and disposable hospital supplies.
Active Pharmaceutical Ingredients segment ("A.P.I.") -	development, production, marketing and distribution of A.P.I. for the pharmaceutical industry including the Group's pharmaceutical segment.

2) Information on revenues and assets of the reportable operating segments:

a) Measurement of revenues and assets of the operating segments:

The measurement of revenues and assets of the reportable operating segments is based on the same accounting principles applied in these financial statements.

Segment profits reflect the income from operations of the segment and do not include net interest income or expense, other expenses or income, minority interest and income tax expenses, since those items are not allocated to the segments.

Sales of the A.P.I. segment to the pharmaceutical segment are recorded at the market prices of sales of similar products to non-related customers.

The amortization of intangible assets is allocated to the segment's operating income without allocating the related intangible asset to that segment.

NOTE 11 - ADDITIONAL FINANCIAL STATEMENT INFORMATION (continued):

b) Financial data relating to reportable operating segments:

	Pharmaceuticals	A.P.I.	Other	Total
		U.S. $ in thousands		
Year ended December 31, 2001:				
Sales:				
To unaffiliated customers	$ 1,838,041	$ 219,151	$ 20,178	$ 2,077,370
Intersegment	144	150,131	1,016	151,291
Total sales	$ 1,838,185	$ 369,282	$ 21,194	$ 2,228,661
Operating income	$ 296,810	$ 130,943	$ 2,008	$ 429,761
Assets (at end of year)	$ 1,366,653	$ 434,371	$ 24,192	$ 1,825,216
Expenditures for segment assets	$ 75,795	$ 30,162	$ 1,425	$ 107,382
Depreciation and amortization	$ 78,221	$ 23,493	$ 681	$ 102,395
Year ended December 31, 2000:				
Sales:				
To unaffiliated customers	$ 1,548,210	$ 180,633	$ 21,011	$ 1,749,854
Intersegment	451	134,574	699	135,724
Total sales	$ 1,548,661	$ 315,207	$ 21,710	$ 1,885,578
Operating income	$ 222,941	$ 100,696	$ 3,219	$ 326,856
Assets (at end of year)	$ 1,188,545	$ 391,324	$ 21,580	$ 1,601,449
Expenditures for segment assets	$ 44,020	$ 33,861	$ 794	$ 78,675
Depreciation and amortization	$ 61,783	$ 20,568	$ 535	$ 82,886
Year ended December 31, 1999:				
Sales:				
To unaffiliated customers	$ 1,091,732	$ 169,023	$ 21,651	$ 1,282,406
Intersegment	209	98,572	698	99,479
Total sales	$ 1,091,941	$ 267,595	$ 22,349	$ 1,381,885
Operating income	$ 162,041	$ 80,496	$ 3,037	$ 245,574
Assets (at end of year)	$ 920, 377	$ 313, 379	$ 19,984	$ 1,253,740
Expenditures for segment assets	$ 32,324	$ 25,820	$ 417	$ 58, 561
Depreciation and amortization	$ 39,142	$ 18,886	$ 606	$ 58,634

NOTE 11 - ADDITIONAL FINANCIAL STATEMENT INFORMATION (continued):

c) Following is a reconciliation of the sales, operating income and assets of the reportable segments to the data included in the consolidated financial statements:

	Year ended December 31		
	2001	2000	1999
	U.S. $ in thousands		
Sales:			
Total sales of reportable segments	$ 2,207,467	$ 1,863,868	$ 1,359,536
Other sales	21,194	21,710	22,349
Elimination of intersegment sales	(151,291)	(135,724)	(99,479)
Total consolidated sales	$ 2,077,370	$ 1,749,854	$ 1,282,406
Operating income:			
Total operating income of reportable segments	$ 427,753	$ 323,637	$ 242,537
Other	2,008	3,219	3,037
Amounts not allocated to segments:			
Restructuring expenses	(15,664)		
Acquisition of research and development in process		(35,697)	(17,700)
Profits not yet realized	(7,564)	(5,915)	(9,783)
General and administrative expenses	(38,794)	(37,206)	(30,405)
Other expenses	(6,947)	(3,510)	(6,340)
Financial expenses - net	(27,565)	(46,015)	(30,598)
Other income - net	7,130	9,848	11,214
Consolidated income before income taxes	$ 340,357	$ 208,361	$ 161,962
Assets (at end of year):			
Total assets of reportable segments	$ 1,801,024	$ 1,579,869	$ 1,233,756
Other assets	24,192	21,580	19,984
Elimination of intersegment balances	(83,257)	(51,652)	(90,215)
Elimination of unrealized income from inventories	(2,973)	(4,962)	(7,991)
Assets not allocated to segments:			
Current assets	956,548	561,689	205,260
Investments and other assets	141,915	100,054	65,393
Property, plant and equipment, net	36,487	36,462	35,773
Intangible assets, net	586,216	612,578	293,319
Consolidated assets (at end of year)	$ 3,460,152	$ 2,855,618	$ 1,755,279

Geographical information:

Sales by geographical areas:

	Year ended December 31		
	2001	2000	1999
	U.S. $ in thousands		
Israel	$ 241,397	$ 244,588	$ 240,121
United States	1,129,657	882,586	589,021
Europe	456,861	398,889	384,181
Other	249,455	223,791	69,083
	$ 2,077,370	$ 1,749,854	$ 1,282,406

The geographical sales information is classified by the geographical location of the customers.

NOTE 11 - ADDITIONAL FINANCIAL STATEMENT INFORMATION (continued):

Investments and property, plant and equipment - by geographical location:

	December 31	
	2001	2000
	U.S. $ in thousands	
Israel	$ 350,574	$ 317,081
United States	111,637	122,054
Hungary	65,223	55,510
Europe, excluding Hungary	61,685	60,471
Canada	38,204	32,865
Other	2,290	366
	$ 629,613	$ 588,347

f. Restructuring expenses:

The consolidated statement of income for the year ended December 31, 2001 includes restructuring expenses in a total amount of $ 15.7 million, including an impairment charge of $ 9.7 million relating to property, plant and equipment. The remaining balance relates mainly to the closure of plants of the Group and the moving of pharmaceutical production lines between locations, according to exit plans which commenced in the fourth quarter of this year, of which an amount of $ 1.5 million has been paid through December 31, 2001. As a result of the structural changes, the Group expects to terminate the employment of 198 employees (mainly management, production and sales personnel) at a total cost of $ 2.3 million.

g. Acquisition of research and development in process:

The amounts charged to income in 2000 and 1999 relate mainly to in-process research and development, identified at the time of acquisition of Novopharm and Copley, respectively - see note 2a.

h. Financial expenses - net:

	Year ended December 31		
	2001	2000	1999
	U.S. $ in thousands		
Interest expense	$ 46,915	$ 52,991	$ 34,579
Interest income	(20,788)	(10,305)	(3,056)
Exchange differences - net	1,438	3,329	(925)
	$ 27,565	$ 46,015	$ 30,598

NOTE 11 - ADDITIONAL FINANCIAL STATEMENT INFORMATION (continued):

i. Other income - net:

In the years ended December 31, 2001, 2000 and 1999, "other income – net" included, among others, net capital gains, amounts received in consideration for rights granted to use certain technology (including patents) developed, and part of amounts to which Teva is entitled following early termination of certain agreements for production and marketing of products.

j. Earnings per ADR:

The net income and the weighted average number of ADRs used in computation of basic and diluted earnings per ADR for the years ended December 31, 2001, 2000 and 1999 are as follows:

	Year ended December 31		
	2001	**2000**	**1999**
	In thousands		
Net income	$ 278,212	$ 148,417	$ 116,779
Interest expense on convertible senior debentures due 2005, and issuance costs, net of tax benefit	8,392	1,378	-
Net income used for the computation of diluted earnings per ADR	$ 286,604	$ 149,795	$ 116,779
Weighted average number of ADRs used in the computation of basic earnings per ADR	132,258	128,965	122,613
Add:			
Net additional shares from the assumed exercise of employee stock options	1,825	1,459	674
Weighted average number of additional shares issued upon the assumed conversion of the convertible senior debentures due 2005	6,378	1,415	-
Weighted average number of ADRs used in the computation of diluted earnings per ADR	140,461	131,839	123,287

KPMG

KPMG Hungária Kft.

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Independent Auditors' Report

To the shareholders of Biogal Pharmaceutical Co. Ltd.:

We have audited the balance sheet of Biogal Pharmaceutical Co. Ltd. (a company incorporated in Hungary) as of December 31, 2000, and the related statements of income and comprehensive income, shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Biogal Pharmaceutical Co. Ltd. as of December 31, 2000, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2000 in conformity with generally accepted accounting principles in the United States of America.

KPMG Hungária Kft.

Budapest, Hungary
January 22, 2001

Ehrenkrantz
Sterling & Co. L.L.C.
Certified Public Accountants and Consultants
6 Regent Street, Livingston, New Jersey 07039 (973) 994-7777 Fax: (973) 994-3444
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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Shareholders
Plantex-U.S.A., Inc.
Englewood Cliffs, New Jersey

We have audited the accompanying balance sheet of Plantex-U.S.A., Inc. as of December 31, 2000, and the related statements of income and comprehensive income, changes in shareholders' equity and cash flows for the years ended December 31, 2000 and 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Plantex-U.S.A., Inc. as of December 31, 2000 and 1999 and the results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles.

Ehrenkrantz Sterling & Co. LLC

Certified Public Accountants
January 17, 2001

Ehrenkrantz
Sterling & Co. L.L.C.
Certified Public Accountants and Consultants
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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

Our report on our audits of the financial statements of Plantex-U.S.A., Inc. for 2000 and 1999 appears on page 1. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of cost of goods sold and selling, general and administrative expenses is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ehrenkrantz Sterling & Co. LLC

Certified Public Accountants
January 17, 2001

PRICEWATERHOUSECOOPERS

Kesselman & Kesselman
Certified Public Accountants (Isr.)
Trade Tower, 25 Hamered Street
Tel Aviv 68125 Israel
P.O. Box 452 Tel Aviv 61003 Israel
Telephone +972-3-7954555
Facsimile +972-3-7954556

**Report of Independent Accountants on
Financial Statement Schedule**

To the Board of Directors of
Teva Pharmaceutical Industries Limited.

Our audits of the consolidated financial statements referred to in our report dated February 14, 2002 appearing in the 2001 Annual Report to the Shareholders of Teva Pharmaceutical Industries Limited also included an audit of the Financial Statement Schedule II –Valuation and Qualifying Accounts - listed in Item 18 of this Form 20-F. In our opinion, the schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

Tel-Aviv, Israel
February 14, 2002

Kesselman & Kesselman
Certified Public Accountants (Isr.)

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

Three Years Ended December 31, 2001

(U.S. $ In thousands)

Column A	Column B	Column C Additions		Column D	Column E
	Balance at beginning of period	Charged to costs and expenses	Charged to other accounts	Deductions	Balance at end of period
Allowance for doubtful accounts:					
Year ended December 31, 2001	$ 9,532	$ 13,707	$ 146	$ (7,747)	$ 15,638
Year ended December 31, 2000	$ 10,290	$ 1,080	$4,410	$ (6,248)	$ 9,532
Year ended December 31, 1999	$ 8,745	$ 3,341		$ (1,796)	$ 10,290

Exhibit 8

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

Subsidiaries and Associated Companies

At March 1, 2002

Name of Subsidiary	Percentage of ownership and control	Jurisdiction of Organization
	%	
Teva Pharmaceuticals USA, Inc. and its US subsidiary	100	Delaware
Teva Neuroscience, Inc.	100	Delaware
Novopharm Limited	100	Canada
Salomon, Levin and Elstein Ltd.	100	Israel
Abic Ltd. and its wholly-owned subsidiaries	100	Israel
Assia Chemical Industries Ltd.*	100	Israel
Teva Tech Ltd.*	100	Israel
Plantex Ltd.	100	Israel
Teva Medical Ltd.	100	Israel
B.L.T.-Biological Laboratories Teva Ltd.	100	Israel
Teva Pharmaceuticals Europe B.V.	100	The Netherlands
Pharmachemie Group	100	The Netherlands
Biogal Pharmaceutical Works Ltd.	100	Hungary
Human Serum & Pharmaceutical Manufacturing Co. Ltd.	98.5	Hungary
Approved Prescription Services Limited	100	United Kingdom
Prosintex Industrie Chimiche Italiane S.r.l.	100	Italy
Gry Pharma GmbH	100	Germany

* Teva Tech Ltd. and Assia Chemical Industries Ltd. have submitted to court a request for merger effective December 31, 1999.

The above list does not include subsidiaries and associated companies engaged in the distribution of pharmaceutical, API and veterinary products in North and South America, Europe and Africa or inactive subsidiaries.

PRICEWATERHOUSECOOPERS

Exhibit 10.1

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Telephone +972-3-7954555
Facsimile +972-3-7954556

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-13108) and Form F-3 (Nos. 333-13126 and 333-14010) of our reports dated February 14, 2002 relating to the consolidated financial statements for the year ended December 31, 2001 and the related financial statement schedule of Teva Pharmaceutical Industries Limited, which are included in Teva Pharmaceutical Industries Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2001.

Tel-Aviv, Israel
March 11, 2002

Kesselman & Kesselman
Kesselman & Kesselman
Certified Public Accountants (Isr.)

KPMG

Exhibit 10.2(i)

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Teva Pharmaceutical Industries Ltd.
Petach Tikva, Israel

We are providing this letter to give permission to the management of Teva Pharmaceutical Industries Ltd. to include our report dated January 22, 2001, with respect to the financial statements of Biogal Pharmaceutical Co. Ltd. as of December 31, 2000 and for each of the years in the two year period ended December 31, 2000, in the Annual Report on Form 20-F of Teva Pharmaceutical Industries Ltd. for the year ended December 31, 2001, which is to be filed with the Securities and Exchange Commission.

This letter is for Teva management's use only and accordingly should not be used for any other purpose.

KPMG Hungária Kft.

KPMG Hungaria Kft.
March 8, 2002

KPMG

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Exhibit 10.2(ii)

Teva Pharmaceutical Industries Ltd.
Petah Tikva, Israel

We consent to the incorporation by reference in the Registration Statement on Form S-8 (no. 333-13108) and Forms F-3 (no. 333-13126 and 333-14010) of Teva Pharmaceutical Industries Ltd. of our report dated January 22, 2001, with respect to the financial statements of Biogal Pharmaceutical Co. Ltd. as of December 31, 1999 and 2000 and for each of the years in the two year period ended December 31, 2000 (which were not separately included in Teva Pharmaceutical Industries Ltd.'s Annual Report), which appears included in the Annual Report on Form 20-F of Teva Pharmaceutical Industries Ltd. for the year ended December 31, 2001 filed with the Securities and Exchange Commission.

KPMG Hungária Kft.

KPMG Hungaria Kft.
March 11, 2002

Ehrenkrantz
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Exhibit 10.3(i)

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Annual Report of Teva Pharmaceutical Industries Ltd. on Form 20-F of our report dated January 17, 2001, on our audits of the December 31, 2000 balance sheet of Plantex-U.S.A., Inc. and the related statements of income and comprehensive income, changes in shareholders' equity and cash flows and supplementary information for the years ended December 31, 2000 and 1999, and, which report is incorporated by reference in this Annual Report on Form 20-F.

Ehrenkrantz Sterling & Co. LLC

Livingston, New Jersey
March 11, 2002

Ehrenkrantz
Sterling & Co. L.L.C.
Certified Public Accountants and Consultants
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Exhibit 10.3(ii)

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statements on Form S-8 (Reg. No. 333-13108) and Form F-3 (Nos. 333-13126 and 333-14010) of Teva Pharmaceutical Industries Ltd. of our report dated January 17, 2001, on our audits of the financial statements and supplementary information of Plantex-U.S.A., Inc. as of December 31, 2000 and for the two year period then ended, which report is included in the Annual Report on Form 20-F of Teva Pharmaceutical Industries Ltd. for the year ended December 31, 2001 filed with the Securities and Exchange Commission.

Ehrenkrantz Sterling & Co. LLC

Livingston, New Jersey
March 11, 2002